

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

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R 051546Z JAN 76

FM AMEMBASSY ROME

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INFO AMEMBASSY BERN

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AMEMBASSY BRUSSELS

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AMEMBASSY PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

US MISSION EC BRUSSELS

US MISSION OECD PARIS

AMCONGEN NAPLES

AMCONGEN MILAN

AMCONGEN FLORENCE

AMCONGEN GENOA

AMCONGEN PALERMO

AMCONGEN TRIESTE

AMCONGEN TURIN

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: PRIME MINISTER MORO YEAR-END ECONOMIC ASSESSMENT

/SUMMARY/. ON JANUARY 4, MILAN'S FINANCIAL DAILY, 24 ORE,  
PUBLISHED ARTICLE WRITTEN BY PRIME MINISTER MORO GIVING HIS  
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END-YEAR ASSESSMENT OF ITALIAN ECONOMIC SITUATION. WHILE

PINTING OUT PROGRESS MADE DURING 1975 IN LOWERING RATE OF INFLATION AND IN REDUCING BALANCE OF PAYMENTS DEFICIT, MORO STRESSES THAT ITALY'S ECONOMIC EQUILIBRIUM REMAINS PRECAIOUS. MAIN PROBLEMS ARE UNEMPLOYMENT, WEAK FINANCIAL STRUCTURE OF BUSINESS AND HIGH LABOR COSTS. PRIME MINISTER WARNS AGAINST INTERRUPTING GOI MANAGAMENT OF ECONOMY AT THIS CRITICAL MOMENT. ALTHOUGH MORO'S ARTICLE WAS WRITTEN BEFORE GOVERNMENT CRISIS WAS THREATENED BY SOCIALISTS (DECEMBER 31), HIS VIEWS BUTTRESS THOSE WHO OPPOSE OPENING OF GOVERNMENT CRISIS. /END SUMMARY/.

1. END-YEAR ECONOMIC ASSESSMENT WRITTEN BY PRIME MINISTER ALDO MORO FOR ANNUAL "ECONOMIC PANORAMA" REPORT PUBLISHED BY MILAN FINANCIAL DAILY 24 ORE WAS PRE-RELEASED ON JANUARY 4. IN ARTICLE MORO CALLS ATTENTION TO PROGRESS MADE DURING 1975 IN ARRESTING ECONOMIC RECESSION, CITING REVERSAL IN INVENTORY CYCLE AND SOME INCREASE IN COMSUMER DEMAND AS INITIAL SIGNS OF ECONOMIC RECOVERY. OTHER POSITIVE FACTORS CITED WERE THAT ITALY'S FOREIGN ACCOUNTS WERE BROUGHT INTO CLOSER BALANCE THAN HAD BEEN BELIEVED POSSIBLE AT BEGINNING OF ENERGY CRISIS AND RATE OF INFLATION HAD BEEN REDUCED TO TOLERABLE LIMITS. NONETHELESS, MORO EXPRESSES SPECIAL CONCERN ABOUT PROBLEMS OF UNEMPLOYMENT, WEAKENED FINANCIAL STRUCTURE OF BUSINESS AND CONTINUED SHARP INCREASES IN LABOR COSTS. HE STRESSES STRONG DETERMINATION OF GOVERNMENT TO AVOID TRANSFERRING BURDEN OF ECONOMIC RECES- SION ONTO WORKERS IN FORM OF MASSIVE LAYOFFS. HOWEVER, HE RECOGNIZES THAT RISING LABOR COSTS HAVE CONTRIBUTED TO LOW PROFITABILITY OF ITALIAN BUSINESS, SO THAT GOI EFFORTS TO STIMULATE FINAL DEMAND, IN ABSENCE OF FINANCIAL ASSISTANCE TO BUSINESS, MAY NOT RESULT IN DESIRED INCREASE IN BUSINESS INVESTMENT.

2. PRIME MINISTER DESCRIBES RECENT ANTI-RECESSION POLICIES ADOPTED BY GOVERNMENT AS "AUDACIOUS", ESPECIALLY IN FACE OF SOME FOREIGN CRITICISM OF RISKS OF RESTIMULATING INFLATION AND WORSENING BALANCE OF PAYMENTS. HE IDENTIFIES TWO MAIN AREAS WHERE GOI EFFORTS HAVE BEEN CONCENTRATED: 1. MASSIVE INCREASE IN PUBLIC INVESTMENTS AND, 2. RESTRUCTURING OF ITALIAN INDUSTRY. RE(1) HE ASKS PUBLIC FOR PATIENCE IN AWAITING EFFECTS OF APPROPRIATIONS FOR PUBLIC INVESTMENTS, WHILE RECOGNIZING NEED TO IMPROVE RAPIDITY AND EFFICIENCY OF GOVERNMENTS AT ALL LEVELS UNCLASSIFIED

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IN CARRYING OUT PUBLIC INVESTMENT PLANS. RE (2) HE UNDERLINES IMPORTANCE OF CURRENT GOI LEGISLATIVE PROPOSALS, INCLUDING CREATION OF NEW INDUSTRIAL RESTRUCTURING FUND.

3. ARTICLE CALLS ATTENTION OF SOCIAL PARTNERS (LABOR AND INDUSTRY) TO CRITICAL WAGE CONTRACT NEGOTIATIONS. MORO SAYS QUITE CLEARLY THAT ITALIAN LABOR COSTS CAN NO LONGER BE PERMITTED TO RISE FASTER THAN IN OTHER EUROPEAN COUNTRIES.

HE CITES LATEST OECD REPORT ON ITALIAN ECONOMY, WHICH WARNS THAT EXCESSIVE WAGE INCREASES CAN ONLY WORSEN FINANCIAL POSITION OF ITALIAN BUSINESS, REDUCE PRODUCTIVE INVESTMENT AND LOWER LEVEL OF EMPLOYMENT. PRIME MINISTER STATES THAT BUSINESS INVESTORS SHOULD AT LEAST BE PERMITTED A PROSPECTIVE RATE OF RETURN ON CAPITAL EQUAL TO THAT EARNED ON ORDINARY BANK DEPOSITS. HE RECOGNIZES THAT MARKET ECONOMIES ARE NECESSARILY SUBJECT TO PRESSURE FROM ORGANIZED LABOR AND TO IMPACT OF GOVERNMENT POLICIES. HOWEVER, WHEN THESE EFFORTS TO INFLUENCE MARKET ECONOMY DO NOT TAKE INTO ACCOUNT FUNDAMENTAL ECONOMIC REALITIES, RESULT IS THAT ECONOMY DEGENERATES INTO NEO-CORPORATIVE SYSTEM AND FINALLY INTO AUTARCHY.

4. MORO DESCRIBES HIS ASSESSMENT OF 1976 PROSPECTS AS BEING NEITHER TOO OPTIMISTIC NOR TOO PESSIMISTIC BUT AS BASED ON BALANCED JUDGMENT WITHOUT ILLUSIONS. RESORT TO PARTISAN POLITICS AND CLASS DISPUTES CAN ONLY RESULT IN A WEAKENED SOCIETY AND IN STAGNANT ECONOMY. MORO CONCLUDES ARTICLE WITH WARNING THAT INTERRUPTION OF CURRENT GOVERNMENT EFFORTS TO OVERCOME ECONOMIC CRISIS CAN ONLY BE AT GREAT RISK TO ITALIAN ECONOMY.

5. /COMMENT/. MORO ARTICLE WAS WRITTEN BEFORE DECEMBER 31 ARTICLE BY PSI SECRETARY DE MARTINO IN WHICH HE THREATENED GOVERNMENT CRISIS. NONETHELESS, IT IS NOW BEING WIDELY CITED, PARTICULARLY BY DC AND PRI SPOKESMEN, TO SUPPORT ARGUMENT AGAINST GOVERNMENT CRISIS AT THIS TIME, SINCE RESULT WOULD BE TO INTERRUPT EFFORTS BY GOVERNMENT TO DEAL WITH CRITICAL ECONOMIC PROBLEMS. VOLPE

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